TAKEOVER THEORIES AND PREDICTION MODELS – THE CASE OF SLOVENIAN PRIVATISED COMPANIES

Janez Bešter

WORKING PAPER No. 7, 2000

TAKEOVER THEORIES AND PREDICTION MODELS – THE CASE OF SLOVENIAN PRIVATISED COMPANIES

Janez Bešter

WORKING PAPER No. 7, 2000

E-mail address of the author: besterj@ier.si

Editor of the WP series: Peter Stanovnik

Ljubljana, December 2000

ABSTRACT

There are numerous motives that stimulate investors (bidders) in the market for corporate control to compete for the right to manage the assets of other companies (targets). These motives are not only numerous and different in nature, they can also be conflicting and dynamically changing during the process of each takeover – statistical models that predict takeover probabilities for individual companies in general will be crippled by this complexity of the real life.

If different bidders have different preferences about the characteristics of potential targets and these characteristics are at least partially reflected in publicly available information, then a model (based on publicly available information) predicting probability of becoming a takeover target for individual companies is by definition sub-optimal. Obviously, the continual race of researchers to prove whose or which theory is the 'right one' is doomed to be fruitless.

I test this hypothesis by constructing and comparing a set of ordered probit models for 38 takeover motives and for the probability of takeover, as well. The analysis is based on a sample of 275 privatised companies in Slovenia (24.1% of the population). A set of explanatory variables consists of financial ratios derived from individual financial statements of the companies, other selected publicly available information and additional data gathered with questionnaires. The empirical investigation shows that the hypothesis stated above cannot be rejected.

1. INTRODUCTION

The intensity of takeovers measured by their frequency and size has been growing significantly during the last decade. This is the case not only for the USA or UK but also for the rest of the world, including continental Europe (Sudarsanam, 1995; Wagstyl, 1997; Reed, 1999). Takeovers are also the inseparable companion of the process called globalisation. Besides growth in their number, what is even more striking, is the size of individual international takeovers that has by far surpassed everything that the corporate world has ever seen in the past. This is especially true for the automobile producers, banking and telecommunications industries, but also for other sectors of economic activity (some of the most notorious cases of this type are: Daimler - Chrysler, Deutsche Bank AG - Bankers Trust Corporation, Mannesmann - Vodafone).

On the other hand, privatisation in most of the so-called 'transition economies' is practically finished. This is also the case for Slovenia, which started this process back in 1993, and is now facing a whole new set of problems and opportunities - previously unknown to this economy. A highly dispersed ownership structure, which is the outcome of the Slovenian privatisation model, lack of financial tradition, masses of unsophisticated shareholders are only some of the characteristics of the present Slovenian capital market and the market for corporate control, as well.[1]

Intensity, techniques and overall importance of takeovers substantially vary from country to country, depending on corporate governance mechanisms, size and structure of the capital markets, importance of banks and other sources of capital, legislature, tradition, etc. Therefore, significant differences can be expected between countries in the relevance of individual takeover motives, number of takeovers and also in their economic consequences.

[1] More about privatisation in Slovenia and its consequences see Mramor 1996, 2000 and Ribnikar 1996, 1999.

Nevertheless, the hypothesis that was tested in this research on a sample of Slovenian companies is expected to be universal. While the relevance of individual takeover motives will change in time and will be different in different environments, the main issue is that there is no single motive or theory that can explain the whole set of takeovers.[2] Different motives can (not necessarily or always) be related to different preferences of bidders about desired characteristics of potential target companies. The obvious consequence of this simple fact are the problems with constructing prediction models for future takeovers.[3] In this paper, I investigate this hypothesis by constructing a set of models for takeover probability and 38 takeover motives.

2. TAKEOVER THEORIES AND PREDICTION MODELS

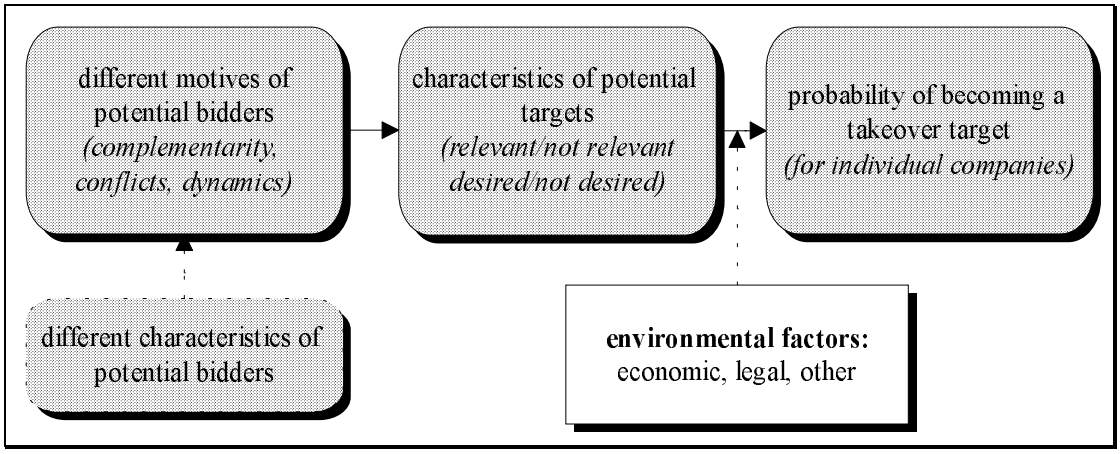
The scientific field of takeovers is extremely broad, heterogeneous in its nature – even eclectic – and even more it is dynamically changing all the time (for a systematic overview see Weston, Chung and Hoag, 1990). There is no dominant explanation (theory or hypothesis) with ambition and realistic potential to scientifically rationalise a wide set of different takeovers, which are direct or indirect outcomes of numerous, complementary or conflicting, and sometimes even offsetting motives.

---

[2] Even more – if there was a superior prediction model (that would enable investor(s) to make extra profits), the investor(s) 'using it' would, doing so, change the 'rules of the game' and the model would become useless as any other. Using a superior prediction model would actually mean exploring the market inefficiencies and consequentially eliminating them. Even if the investor in possession of a superior prediction model would not have sufficient funds to change the prices in the capital market himself (therefore eliminate its inefficiency revealed by the model), he would eventually grow in size by making extra profits, other investors would start copying his behaviour and one should not forget the option of selling the model to a bigger (the biggest) investor(s) in the market, that would only speed up this process. To make a long story short: if there was a superior prediction model it would 'function' only until it is used in real life. Extra profits using it would diminish to zero (excluding transaction costs), while the speed of this process would depend on the relative size of investments based on the model and capability of other investors to follow the most successful investor(s).

[3] Prediction models never stopped to attract attention of researchers and investors in the capital market. The reason is in the takeover premiums that average around 30%, but can reach even more than 100% in individual takeovers. Investors that would be able to predict future targets of takeovers better than other investors in the market could make extra profits. Obviously, the best performing prediction models are not to be published in academic literature – at least not while they are still functioning – they should be (and probably are, if they exist) exploited in real life.

Figure 1: Fuzzy logic of takeovers



But in spite of a vast number of empirical research papers, articles and books dealing with takeovers, there is still a *gap in understanding the causal logic between different motives of different potential bidders, characteristics of potential targets (companies), and the probability that a certain company will actually become a takeover target*. Especially the empirical research, which is directed towards construction of more efficient *prediction models, seems to be seriously crippled by the fact that the complexity and dynamics of motives* has not been satisfactorily given attention, yet.

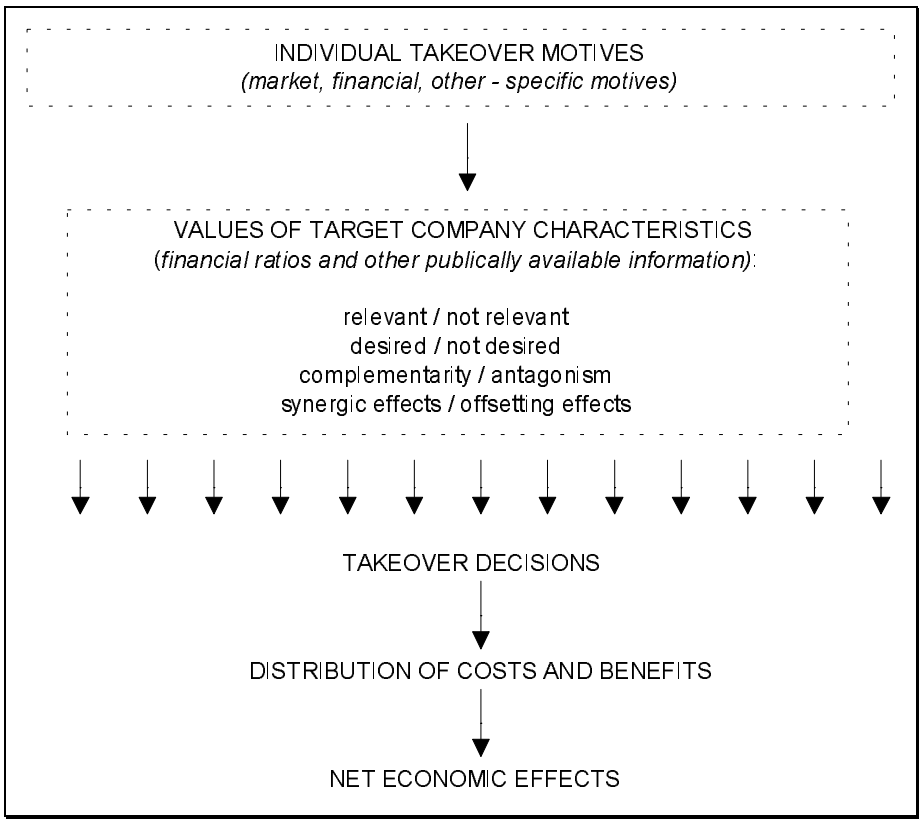
Another important conclusion that can be drawn from comparing different studies and prediction models (for a comparative overview see Rees, 1990) is the simple fact, that different researchers use different samples (size, time, location, selection criteria) and find different sets of financial ratios and other information as statistically significant – sometimes these are (even) partially the same, but the directions of relations are different. Testing the prediction power of models on the same data (or parts of the same sample), that was used to construct them, will usually result in overly optimistic evaluation of their quality. Since there are not two different studies (at least not known to the author of this article) that revealed the same set of explanatory variables as statistically significant, it seems necessary to further investigate the background of this phenomena.

That is why the main emphasis in my research is given to a set of possible motives that make different investors become bidders for other companies - called targets. I hypothesise that different motives of bidders are reflected in their different preferences about characteristics of target companies. These characteristics are at least partially visible to the capital market by evaluating publicly available information. Among others, financial statements reported by individual companies offer a source to produce a set of

financial ratios that can be used - in combination with other publicly available information - to predict the importance of individual motives for individual target companies.

Since there can be more than one potential bidder interested for the same target company, while the motives of these bidders can be the same or different (complementary, conflicting, offsetting), I hypothesise that general models predicting takeover probability for individual companies are at least in some cases crippled in their efficiency due to statistically significant offsetting relations.[4] These are thoroughly studied in the empirical investigation.

Figure 2: Motives - complementarities and offsetting effects



[4] More about methodology in financial analysis and prediction models for takeovers see Rees, 1990.

3. METHODOLOGY AND SAMPLE

The population of companies that was addressed by a questionnaire, was defined on the basis of an objective criteria: Slovenian companies that were privatised by 01.04.1998 (1139 companies) - more accurately - they acquired the '*second approval'* from the Agency of the Republic of Slovenia for Restructuring and Privatisation as a necessary condition for Court Registry entry. The questionnaire was prepared, tested and sent to all 1139 companies.[5] In the first round, 155 questionnaires were collected from these companies and in the second round 120 (questionnaires were sent again to the rest of the companies - 984). Altogether the size of the sample was 275 privatised Slovenian companies and the overall response rate was 24.1%.

To obtain further information necessary to complete the research, interviews with governmental officials and with managers of some privatised companies were organised and executed. These meetings proved to be very informative and helpful in assessing the progress of privatisation and its consequences in Slovenia, including an intensifying of the takeover activity. Additional information was gathered using Internet and home pages of several other governmental and non-governmental institutions like: Agency of the Republic of Slovenia for Securities Market, Agency of the Republic of Slovenia for Restructuring and Privatisation, Slovenian Development Company - all these institutions were also personally visited to either obtain or to verify certain information relevant to the research.

Official financial data about privatised Slovenian companies was obtained from the Agency for Payments (Clearing) and was used to produce a set of financial ratios, which were tested in the empirical analysis.

The empirical analysis was done using standard statistical packages like SPSS and LIMDEP (LIMited DEPendent variables – Greene, 1989). An ordered probit model was used to investigate statistical relations between publicly available information about companies (especially financial ratios) and the estimated probability of takeovers in comparison to the estimated importance of the individual 38 potential motives for takeovers. Takeover probability and the importance of individual motives to individual companies were gathered using the questionnaire. So the *publicly available information*

[5] The questionnaire was tested on a sample of 15 companies and some minor modifications to the original content were made before addressing the whole target population.

was actually used to predict the answers of the companies' representatives (top-level managers).[6]

Another important question was why not use actual takeover data instead of gathering management opinions about motives and probability of takeovers. While one good explanation lies in the fact that the number of actually executed takeovers in Slovenia was relatively small (which was even more true for the years till 1999), this could not be an argument while analysing data from other capital markets. Nevertheless, there is an even more important reason to use data gathered with questionnaires before takeovers of these companies are actually executed. While predictions of takeover probabilities for individual companies can always be compared to the actual events in the next years, the identification of takeover motives is not an easy task to do at all.

The main question is when are the answers of the managers about motives for potential takeovers of their companies more and when are they less biased. If the company has already been taken over, we can expect – whether a new management was appointed or the old one was kept – that the answers will reflect the opinions of their bidders, i.e. new owners. This is because managers could be afraid to loose their jobs, if they are not loyal to their new owners.

One good example of this logic are officially announced takeover motives of bidders that typically differ from those that are communicated to the shareholders and the public by target companies' managers (definitely true in hostile takeovers). Therefore, it is less likely that answers of the managers will be biased before takeovers are actually executed or even announced than later when they are expected to support the opinions of the new 'bosses' – if they want to keep their jobs.

Using a questionnaire to assess opinions of top-level managers about takeover perspectives of their companies in relation to the characteristics of these companies (that are publicly available and other gathered by questionnaire) brings a fresh new look at the 'old problems'. It is also important that this methodology is applicable in any other capital

[6] Top-level managers of the companies that represent a sample of the study were asked (among others) to evaluate every single motive (38) on a scale from 0 to 4 (*irrelevant* - ... - *very relevant* for the company he/she was representing) and the probability of takeover for their companies on a scale from 0 to 5 (very unlikely - ... - inevitable). Since the dependent variables in the models were ordered and the independents represented a mix of scale, ordered, nominal and dummy variables (many with problematic distributions), an ordered probit model was selected as the most appropriate statistical tool (see formal explanations in Greene, 1997; Pindyck and Rubinfeld, 1991 and Stanovnik, 1992).

market. Actually, the fact that there are huge databases for thousands of executed takeovers available for countries like USA and UK could have diverted the attention of researchers from more primary questions that can further clarify the logics of takeovers in general.

4. RESULTS AND COMMENTS

In the empirical analysis, I test the hypothesis that different motives of bidders can best be explained using different sets of publicly available information and even more that some of the motives will have different directions of relations with the same explanatory variables – the signs of coefficient estimates in the models will be different. The test is done by constructing and comparing a set of ordered probit models for 38 individual motives as well as for the probability of takeover in general.

4.1. PREDICTING PROBABILITY OF TAKEOVER FOR INDIVIDUAL COMPANIES

Overall, there are more than 60% of companies in the sample that have rated the probability of becoming a takeover target in the next few years as moderate, high or very high.[7] 28% of the companies have also stated that they know exactly who their potential bidders are.

Explanatory variables that represent publicly available information and were tested in the models were made of three different sets:

1. financial and other ratios calculated from financial statements of the companies,
2. dummies for branches,
3. dummies for other publicly available information:
    a. is the company listed in the stock market,
    b. have the shares of the company been accepted to the Central Securities Clearing Corporation Registry - CSCC (shares issued in a book entry form),
    c. is the Law on Takeovers applicable for the company.

[7] Their answers were transformed from verbal to numerical: none – 1, very low – 2, moderate – 3, high – 4 and very high – 5.

Following, I present the results of the model predicting answers of the company representatives about their perceptions of the probability that their companies will be taken over during the next few years. Explanatory variables are grouped as: financial ratios, dummies for branches (publicly available information) and other dummies (the first one representing publicly available and the second one publicly unavailable information about companies).

Table 1: Estimation of the ordered probit model – probability of takeover

Variable	Coefficient estimate		Asymptotic standard error
Financial ratios:			
BDVZ – gross value added per employee	-0.0001	[c]	0.0000
CW – cost of labour per employee	0.0001	[b]	0.0001
Dummies for branches:			
SKD_24 - chemicals	0.6117	[c]	0.3288
SKD_30 - electronics	0.9260	[a]	0.3596
SKD_34 - transport equipment	-0.7202	[c]	0.3807
SKD_36 - furniture	-1.8202	[a]	0.5740
SKD_50 - wholesale/retail	0.3783	[b]	0.1680
Other dummies:			
KA12 - company is delaying registration of its shares with the CSCC	0.3212	[b]	0.1610
KA63 - does not know whether the Law on Takeovers is applicable for the company	-0.2996	[b]	0.1497

Summary statistics
Number of observations = 271
L (c) = -432.18
L (α) = -410.07
χ^2 (9) = 44.210

Note:
1. L (c) denotes the value of the likelihood function assuming all the coefficients (except the constant) are zero;
2. L (α) denotes the value of the likelihood function on sample;
3. [a] $p<0.01$; [b] $p<0.05$; [c] $p<0.10$;
4. 271 companies out of 275 in the sample provided all the necessary data to be processed in the model.

The main conclusions are the following:

1. The probability that the predicted probability of takeover will be higher ***decreases*** with the increase in gross value added per employee (all other things being equal).
2. The probability that the predicted probability of takeover will be higher ***increases*** with the increase in labour cost per employee (all other things being equal).

To put it simply, representatives of companies with higher labour cost and/or lower gross value added per employee were most likely to predict the probability of takeover of their companies higher than other representatives of the companies in the sample. In other words, the perception of probability of takeover was higher for companies with lower labour productivity and/or higher wages.

While there were no market ratios tested in the analysis – market values like share prices were available only for 13 out of 275 companies in the sample – it is very interesting that there is not a single standard financial ratio in this model (representing profitability, liquidity, short and long term paying ability, leverage etc) – 33 were tested – statistically significant at the acceptable level ($p \leq 0.10$). I further investigated this finding with ordered probit models for individual motives. The results are summarised in Table 3.

Furthermore:

3. The probability that the predicted probability of takeover will be higher is ***higher*** for companies from chemicals and electronics industries and from wholesale/retail.
4. The probability that the predicted probability of takeover will be higher is ***lower*** for companies producing transport equipment and furniture.

Therefore, companies in some of the branches were more likely to have higher perceptions of takeover probabilities than others – chemicals, electronics and wholesale/retail. On the other side, producers of transport equipment and furniture were more likely than companies from all other branches to evaluate the probability of takeover as very low.

And:

5. The probability that the predicted probability of takeover will be higher is ***higher*** for companies that were delaying registration of their shares with the CSCC.
6. The probability that the predicted probability of takeover will be higher is ***lower*** for companies whose representatives did not know whether the Law on Takeovers applies to their companies or not.

It seems that companies, whose managers rated the probability of takeover (of their companies) higher than others, used a 'delay in registration of their shares with the CSCC' as a defence mechanism against takeovers.[8]

Representatives of companies, who were not sure about the applicability of the Law on Takeovers in cases of their companies, rated the probability of takeover lower than others. These companies, whose representatives did not know the answer to the above question, were smaller (measured by logarithm of annual sales) and had higher shares of insider shareholders than other companies in the sample.[9] On the other side, representatives of bigger companies knew the answer to the question; they had ownership structures that gave their managers less reassurance of shareholders support in cases of outside bidders and were also more afraid of becoming takeover targets.

4.2. INDIVIDUAL MOTIVES AND EXPLANATORY VARIABLES

In the following table there is a list of 38 motives which were thoroughly analysed in the ordered probit models. The listing includes frequencies and averages for individual motives. In this table, we can see that market motives are expected to prevail over financial and other – more specific motives. Market motives are also expected to be the major driving force for foreign investors seeking takeover opportunities in Slovenia.

[8] Not being registered with the CSCC represented an additional legal obstacle for the taking-over of such a company by undesired outside bidders.

[9] We can make an assumption that managers of the companies with prevailing insider shareholders (mainly employees) felt less exposed to outside bidders counting on the loyalty of their owners-employees in cases of undesired takeover threats.

Table 2: Takeover motives – frequencies and averages (in decreasing order)

Rank	Motives	Answers						Average
		1	2	3	4	5	n	
1	B – acquiring market share (in Slovenia) of the target company	53	30	43	58	74	258	3.27
2	C – quick entry into the Slovenian market (foreign bidder)	96	29	38	58	37	258	2.66
3	V – high quality of human resources in the target company	75	34	81	52	16	258	2.61
4	F – interesting products/services of target company	90	32	63	50	23	258	2.55
5	Y – economies of scope	86	39	69	50	14	258	2.48
6	Z – financial synergies	93	37	71	42	12	255	2.38
7	E – acquiring distribution channels of the target company	105	49	41	38	25	258	2.34
8	X – economies of scale	92	47	67	44	6	256	2.32
9	W – lower labour cost	91	52	65	43	7	258	2.31
10	Q – stable and relatively large cash flows	95	55	59	34	15	258	2.30
11	M – undervaluation of the target company	95	52	66	37	8	258	2.27
12	S – technologically advanced production	102	44	67	35	10	258	2.25
13	T – unutilised production capacity	95	59	64	33	7	258	2.22
14	J – eliminating a competitor in Slovenia (probable closedown of the target)	118	45	41	30	24	258	2.21
15	H – strategic realignment	105	45	77	20	11	258	2.17
16	R – unutilised credit potential	110	57	42	37	9	255	2.13
17	P – free (excess) cash flows of the bidder	110	47	63	27	8	255	2.12
18	A – fast growth	117	44	63	22	12	258	2.10
19	HH – ‘split up’ – takeover and sale of parts of the company	120	49	37	29	15	250	2.08
20	G – diversification	110	54	66	22	6	258	2.07
21	DD – management replacement	109	59	67	16	7	258	2.04
22	K – securing supplies (target company as a critical supplier of inputs)	131	47	39	25	14	256	2.00
23	U – high quality of R&D department	122	57	44	28	7	258	2.00
24	GG – speculation	125	45	38	23	13	244	1.99
25	EE – replacement of the members of the supervisory board	125	57	49	19	8	258	1.95
26	L – securing sales (target company as a critical buyer of bidders outputs)	135	47	46	22	8	258	1.92
27	BB – concessions	139	48	24	23	15	249	1.90
28	AA – tax minimisation	124	67	37	19	8	255	1.90
29	II – hubris	132	62	32	17	8	251	1.83
30	N – high price/earnings ratio	135	60	48	10	5	258	1.80
31	I – eliminating a competitor in the foreign markets (probable closedown)	169	33	23	18	13	256	1.72
32	O – low price/earnings ratio	144	66	41	6	1	258	1.66
33	D – access to market shares of the target in foreign markets	168	36	17	15	12	248	1.66
34	JJ – political motives	159	43	26	14	6	248	1.65
35	LL – defence motives	150	47	34	12	2	245	1.65
36	CC – patents, licences	164	51	23	14	4	256	1.61
37	KK – money laundering	167	45	30	6	2	250	1.52
38	FF – stock market quotation	174	43	14	2	1	234	1.35

Note: above data is derived from the ordered probit models for individual motives – due to singularity problems some companies were removed from the sample for individual motives.

The results of the ordered probit models for individual motives compared to the model for probability of takeovers are summarised in Table 3. Statistically significant predictive variables that represent publicly available information and have demonstrated different (offsetting) directions of relations are listed *(+ and - signs are used to denote the direction of relation)* and marked by asterisk (*). There are also other variables listed that were statistically significant in 6 or more models (motives).

Different sets of statistically significant explanatory variables in the models summarized for individual motives already support the hypothesis that bidders with different takeover motives differ in their attitude towards selected characteristics of target companies.

What is even more convincing is that there are also several explanatory variables that are statistically significant in more than one model, but the directions of their relations to the values of individual motives are not the same. In Table 3, these are marked by asterisk: 8 financial ratios, 10 branches (dummies) and 3 dummies for other publicly available information about companies. This means that bidders with certain motives prefer higher values of certain variables (representing characteristics of target companies), other bidders with different motives prefer lower values of the same variables and in the third group there are potential bidders that are indifferent towards values of these same variables. This finding shows us that prediction models that do not take into account this fact of possible counter-effects will be at least sub-optimal if not useless.

Table 3: Ordered probit models – explanatory variables, probability of takeover (D1) and motives (A...LL)

	D1	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	BB	CC	DD	EE	FF	GG	HH	II	JJ	KK	LL	+	-	S		DESCRIPTIONS OF VARIABLES
																																													financial and other ratios:
ROA					+	+	+		+						+					+		+			+		+	+		+			+				+		+		14	0	14		return on assets
CW	+						+			+						+		+		+	+	+	+							+							+			11	0	11		cost of labour per worker
LOGVELP		+	+		+	+	+			+								+		+		+			+	+													11	0	11		sales - size of the company
SW		-					-			-						-				-	-	-							-	-	-					-			0	11	11		sales per worker
TIE			+	+									+	+		+	+							+		+														8	0	8		times interest earned
EFA						-	-													-		-										-				-			-	0	7	7		equity to fixed assets ratio
QR								-		-											-			-	-			-		-										0	7	7		acid test ratio
TSA					-															-		-		-	-			-									-			0	7	7		asset turnover
KCFD			-															+		+	+			+	+															5	1	6	*	cash flow / debt
LOGSD			+	+	-					-																				-									+	3	3	6	*	log of domestic sales share
DOL																								-	-				+			-								1	3	4	*	degree of operating leverage
K4				+																						+	+										-				3	1	4	*	financial cost per total sales
BDVZ	-																														+	+								2	1	3	*	gross value added
CR		-								+											+																			2	1	3	*	current ratio
DFL											+						-								-															1	2	3	*	degree of financial leverage
K1		-				+										-																									1	2	3	*	costs per total sales
																																													branches:
SKD30	+						+			+	+	+										+		+								+	+	+			+			11	0	11		electro
SKD1			-	-		-																			-	-	-		+		-							+			2	7	9	*	agriculture
SKD15			+	+			+						+							+	+														-						6	1	7	*	food
SKD27												+									+	+		+				+	+	+											7	0	7		ferrous and non-ferous
SKD45			-			-												+			+								+							-		+			4	3	7	*	construction
SKD60		+					+											+									+	+	+									+			7	0	7		transport
SKD90				-		-																									-	-		-	-						0	6	6		other services
SKD24	+																+							+							-		-								3	2	5	*	chemicals
SKD50	+			-									+							-																		-			2	3	5	*	wholesale/retail
SKD17													-												-		-				+										1	3	4	*	textile
SKD29									-												+	+		+																	3	1	4	*	mechanical engineering
SKD55						-						-		+		+																									2	2	4	*	tourism
SKD19															-				-																			+			1	2	3	*	footwear
SKD34	-									+																															1	1	2	*	transport equipment
																																													other public information:
KA11		-				+	+	+			+	+	+	+					+	+				+	+	+	+	+					+						+	16	1	17	*	shares registered in CSCC
KA12	+	-							-	-		+										-							-	-										2	6	8	*	shares not yet registered in CSCC
KA24										+			+						+			+							+								+			6	0	6		not yet listed in stock market
KA61				+			+	+		+			-																											4	1	5	*	Law on Takeovers applies
* *offsetting statistical relations*																																												

5. CONCLUSIONS – DISCUSSION

The empirical research has proved that different motives, which were tested in statistical models, differ in their importance for individual companies in the sample. Some of them are considered very relevant for most of the companies and others only for specific groups of companies (for instance in some of the branches). Also the impact of the perceived importance of individual motives on the general probability of becoming a takeover target is not homogeneous.

I also found out that market motives are expected to dominate (in the opinion of managers from the Slovenian sample of privatised companies) the takeover process in Slovenia. Especially foreign bidders are expected to take over Slovenian companies to gain access to their market shares - mainly in Slovenia. On average, financial and other more specific motives seem to be less important than market motives.

Testing a number of financial ratios and other publicly available information in ordered probit models also proved that different motives of bidders are reflected in different preferences about characteristics of target companies. In other words, *bidders select targets by setting up the criteria that is dependent on their motives. Different motives mean different criteria and therefore different 'desired' characteristics of potential targets*. This means that the same quality (reflected in publicly available information) of the target company may be desirable to one bidder and not desirable to another. Actually, the same target company may be interesting to the second bidder for another of its qualities that is irrelevant or even unacceptable to the first one. The model predicting probability of a takeover for such a company is crippled by the fact that the predictive power of the variable representing such a quality of the target company will be nullified due to counter-effects of different expectations - desired target characteristics - of the two or more (groups of) bidders.

The statistical verification of the hypothesis explained above has not only important theoretical, but also interesting practical implications. Different bidders can have different motives, even when trying to gain control of the same target company, which also means that the economic outcome of such takeovers can be different - depending on which bidder/motive wins the 'takeover battle'. Obviously this conclusion gives some additional room to discuss policy issues, too.

REFERENCES

1. *Greene H. William: LIMDEP – Version 5.1. New York: Econometric Software, 1989.*
2. *Greene H. William: Econometric Analysis. Upper Saddle River (New Jersey): Prentice-Hall, 1997.*
3. *Mramor Dušan: Financial Behaviour of Slovenian Companies. Portorož: Zveza ekonomistov Slovenije, Zveza računovodij, finančnikov in revizorjev Slovenije, 2000.*
4. *Mramor Dušan: Primary Privatization Goal in Economies in Transition. The International Review of Financial Analysis, Birmingham (Alabama), 5(1996), 2.*
5. *Pindyck S. Robert, Rubinfeld L. Daniel: Econometric Models and Economic Forecasts. New York: McGraw-Hill, 1991.*
6. *Reed Stanley: Buyout Fever! LBOs changed dealmaking in America. Will they change Europe, too?, Business Week, New York, (1999), June 14.*
7. *Rees Bill: Financial Analysis. New York: Prentice Hall, 1990.*
8. *Ribnikar Ivan: Who Would Be the Best Owners of Slovenian Companies? Slovenska ekonomska revija, Ljubljana, 47(1996), 4.*
9. *Ribnikar Ivan: Kdo bo vladal podjetjem. Gospodarski vestnik, Ljubljana, 48(1999), 51.*
10. *Stanovnik Tine: Perception of poverty and income satisfaction. Journal of Economic Psychology, Amsterdam, 13(1992), 1.*
11. *Sudarsanam P. S.: The Essence of Mergers and Acquisitions. London: Prentice Hall, 1995.*
12. *Wagstyl Stefan: Arranged marriages: Pan-European mergers are all the rage. Financial Times, London, (1997), October 14.*
13. *Weston J. Fred, Chung S. Kwang, Hoag E. Susan: Mergers, Restructuring, and Corporate Control. Englewood Cliffs (N.J.): Prentice Hall, 1990.*